C

Crown Management Board of Saskatchewan

Annual Report 1987

Crown Investments Corporation
of Saskatchewan

CROWN MANAGEMENT BOARD OF SASKATCHEWAN

ANNUAL REPORT 1987

CONTENTS

Letter of Transmittal 2

Board of Directors 3

Officers and Senior Management 3

Chairman's Report 4

President's Report 5

Crown Corporations 6

1987 Financial Performance 7

Consolidated Financial Statements 1987 14

Crown Investments Corporation of Saskatchewan
2400 College Avenue
Regina, Saskatchewan
S4P 1C8

LETTER OF TRANSMITTAL

Regina, Saskatchewan,
May 6, 1988

To His Honour,
The Honourable F.W. Johnson, Q.C.,
Lieutenant Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the tenth annual report of the Crown Investments Corporation of Saskatchewan for the year ended December 31, 1987 including the consolidated financial statements in the form approved by the Treasury Board as well as the auditors' report, all in accordance with **The Crown Corporations Act, 1978.**

I have the honour to be, Sir,

Your obedient servant,

Eric Berntson,
Minister Responsible,
Crown Investments Corporation
of Saskatchewan.

BOARD OF DIRECTORS

Hon. Grant Devine
Vice-Chairman

Hon. Eric Berntson
Minister Responsible

Hon. Bob Andrew

Hon. J. Gary Lane, Q.C.

Hon. Graham Taylor

Wolfgang Wolff, F.C.A.
Chairman

Harold Lane, Q.C.
Saskatoon

Frank Proto
Edmonton

Garnet K. Wells
Edmonton

OFFICERS AND SENIOR MANAGEMENT

W. B. Gibson
President

S. D. Elbaum
Vice-President, Corporate Planning

T. A. Leier
General Counsel

I. A. Ellis
Project Director

H. E. McEwen
Director, Pensions & Benefits

R. D. Rogers
Senior Vice-President

G. A. Mrazek
Director, Accounting Services

D. A. Marce
Secretary to the Board

D. G. Hughes
Project Director

R. C. McKenzie
Project Director

CHAIRMAN'S REPORT

The diverse and complex nature of Saskatchewan's commercial Crown corporations as well as the significant amount of capital resources required to carry out their operations demand a high degree of management skills within each corporation. It also requires an agency with a mandate to guide the Crown corporations in accordance with sound business principles, and to provide timely information to the corporations and the Government of Saskatchewan on matters of significance to the individual corporations, the entire group and the Province.

The Crown Management Board of Saskatchewan is responsible for monitoring and evaluating Saskatchewan's investments in the commercial Crown corporation sector. This responsibility is important because the corporations consolidated within the accompanying financial statements in this annual report represent over $7 billion in assets and provide direct employment to nearly 12,000 people as well as indirect employment to many others.

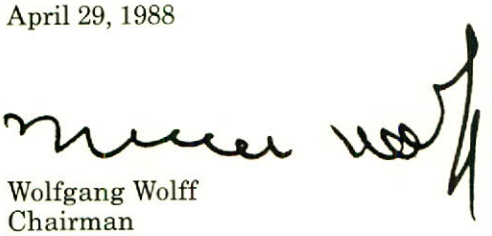
During the last several years, the Government of Saskatchewan has proceeded to reduce its involvement in the business sector and, at the same time, encourage more private investment within the Province. In order to attain these objectives, the Crown Management Board has attempted to find ways for the government to participate in the development of the provincial economy without excessive public investment or undue risk.

In the years prior to 1987, successful bond issues by Saskatchewan Power Corporation as well as Saskatchewan Oil and Gas Corporation (Saskoil) created new sources of funds for those corporations and an investment return to the lenders. The issue of Saskoil common and preferred shares provided another method by which the Government of Saskatchewan was able to attract private investment. The sale of certain assets of the Prince Albert Pulp Company Ltd. to Weyerhaeuser Canada Ltd. brought a widely respected and proven manufacturer and marketer of pulp and paper products to Saskatchewan, not only to assume the existing business, but to expand it significantly by constructing a new fine paper mill in Prince Albert which is now nearing completion.

A major project in 1987 was the construction of the new Heavy Oil Upgrader, a joint venture of the Province of Saskatchewan, represented by Crown Management Board, Federated Cooperatives Ltd. and the Federal Government, scheduled for completion in the last quarter of 1988. This plant, when construction is completed, will provide a stable market for 50,000 barrels per day of Saskatchewan medium and heavy crude oil which will, in turn, stimulate further development of Saskatchewan's petroleum resources. The project provides substantial economic advantages and has directly benefitted approximately 250 Saskatchewan firms as a result of contracts awarded for materials, fabrication and services.

In each of these initiatives, there has been a concerted effort to ensure that employment opportunities were not only maintained but expanded wherever possible. In addition, there has been emphasis on the development of technology with a view towards future employment opportunities for Saskatchewan graduates. This is an investment in the Province, its communities and businesses. It will continue to be our responsibility to search for innovative and creative proposals for the benefit of the people of Saskatchewan.

April 29, 1988



Wolfgang Wolff
Chairman

PRESIDENT'S REPORT

It is a great pleasure to report a significant improvement and turnaround in the consolidated net income of the Crown Investments Corporation of Saskatchewan (CIC) for 1987. CIC is a provincial Crown corporation which operates under the authority of **The Crown Corporations Act, 1978**. CIC is charged with the administration of government policy as it relates to the thirteen corporations within its purview. These corporations are listed on the following page.

Each of these thirteen Crown corporations operates in a distinct industry. For purposes of broad categorization, the corporations are classified in one of three separate sectors: resources, utilities, and financial and services. This annual report represents the consolidation of the financial statements of these corporations under the name Crown Management Board of Saskatchewan. Consolidated net income for the year ended 1987 was $104 million compared to a consolidated loss (restated) of $137 million in 1986.

The vast improvement in the 1987 operating results can be attributed to a number of general and specific factors. The rise in the Canadian dollar over the course of 1987 compared with the United States dollar has markedly reduced not only the interest costs of the consolidated group but has also contributed significantly to the drop in the long-term debt load. Strengthening resource prices have enabled certain of the corporations within the resource group to report much better results in 1987 compared to the prior year.

In particular, I would like to comment on some of the individual success stories in 1987. Potash Corporation of Saskatchewan has recovered significantly in the current year due to an increase in sales revenue as well as a financial restructuring which reduced the corporation's debt and related interest costs. This enabled the Corporation to markedly improve its operating performance after reporting a loss in excess of $100 million in 1986. The electric utility in Saskatchewan Power Corporation reported its first profit in eight years and Saskatchewan Mining Development Corporation, Saskatchewan Telecommunications and Saskatchewan Government Insurance have all posted record net earnings in the current year. Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.) recorded a cumulative investment return in 1987 of $63 million on its income debenture from Weyerhaeuser Canada Ltd. This compares to losses by Meadow Lake Sawmill Ltd. totalling more than $26 million in the 20 months prior to the sale to Weyerhaeuser.

1987 also marked the year of the privatization of the audits of each of the Crown corporations, an initiative which has been well received by all of the corporations and private sector auditing firms.

The current year, then, has been a most positive one with significant accomplishments and vastly improved operating results. I would like to take this opportunity to thank each of the respective boards of directors of the Crown corporations as well as their management teams for their valuable contributions which we have the privilege to record in this annual report. I would also like to commend the CMB staff whose continued hard work and dedication does not go unnoticed and is greatly appreciated.

April 29, 1988

William B. Gibson
President

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Resources

Potash Corporation of Saskatchewan

Saskatchewan Mining Development Corporation

Saskatchewan Forest Products Corporation

Saskatchewan Minerals

Utilities

Saskatchewan Power Corporation

Saskatchewan Telecommunications

Saskatchewan Computer Utility Corporation

Saskatchewan Water Corporation

Financial and Services

Saskatchewan Government Insurance

Saskatchewan Economic Development Corporation

Saskatchewan Development Fund Corporation

Saskatchewan Transportation Company

Agricultural Development Corporation of Saskatchewan

Major Subsidiaries

CIC Industrial Interests Inc. (100%)

Meadow Lake Sawmill Ltd. (100%)

Major Investments

NewGrade Energy Inc. (50%)

Saskatchewan Oil and Gas Corporation (47%)

1987 FINANCIAL PERFORMANCE

Crown Investments Corporation of Saskatchewan (CIC) is a provincial Crown corporation, without share capital, operating under authority of **The Crown Corporations Act, 1978**. The Corporation is responsible for administering provincial government policy as it relates to those Crown corporations under its purview with particular emphasis on business efficiency and effective management. Crown corporations are designated as being within the CIC group by Order-in-Council. As at December 31, 1987 there were thirteen corporations so designated.

Each year the financial statements of CIC are consolidated with the aforementioned Crown corporations to provide the Legislature with financial information relating to the aggregate results of these corporations. For administrative purposes, CIC has grouped the corporations into three sectors: resources; utilities; financial and services. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets. The diversified nature of the corporations within the consolidated group is such that the operating results can be affected by events and conditions occurring throughout the world.

OVERVIEW

This is the tenth annual report of the Crown Investments Corporation of Saskatchewan. The report includes a consolidated statement of 1987 financial results of the province's commercial Crown corporations and a brief comment on the performance of each corporation. Further narrative and financial information relating to each of the thirteen commercial Crown corporations is available in their individual annual reports.

RESOURCE CORPORATIONS

Four Crown corporations comprise this group - Potash Corporation of Saskatchewan, Saskatchewan Mining Development Corporation, Saskatchewan Forest Products Corporation and Saskatchewan Minerals. These corporations sell natural resource based commodities (potash, uranium, forest products and sodium sulphate) in both domestic and international markets.

Potash Corporation of Saskatchewan (PCS)

PCS reported a net loss of $20.7 million in 1987 compared to a net loss of $103.4 million in 1986. Sales revenues in 1987 were $256 million on sales of 4.7 million tonnes KCl (24 per cent higher than in 1986). Sales in North America increased by 8 per cent despite acreage reductions in corn and soybeans, the crops for which potash is most essential. PCS made record sales through the offshore sales agency Canpotex due to the tonnage purchased by China. In addition, 0.4 million tonnes were sold to Potash Corporation of America as a result of a temporary closure at its mine. Average sales prices increased about 9 per cent over those prevailing in 1986. In addition to the sales increase, PCS underwent a financial restructuring in 1987 which enabled it to reduce its debt and related interest costs which also contributed to the turnaround in PCS's operations this year.

In February 1987, two New Mexican potash producers filed an anti-dumping petition against potash imported from Canada. On August 28, 1987 the United States Department of Commerce announced preliminary dumping margins ranging from 9 per cent to 85 per cent on Canadian producers, with PCS being levied with a 51.9 per cent duty. On January 8, 1988, a Suspension Agreement was signed by the United States Department of Commerce and the Canadian producers, suspending the petition for a period of five years, at which time it will terminate. The duties collected by PCS while the petition was before the American authorities are now being credited back to the Corporation's United States customers.

The commissioning of the Lanigan Phase II mine expansion took place during the year, with full operational status being achieved in September. The extended labour dispute at Lanigan was resolved in February 1987.

During 1987, progress was made in controlling the brine inflow situation at the International Minerals Corporation mine at Esterhazy (PCS shares in Esterhazy production through an Operating Agreement).

Saskatchewan Mining Development Corporation (SMDC)

SMDC reported net income of $60.3 million in 1987 (compared to $30.4 million in 1986) on uranium sales of $186.4 million to Canadian, American, Western European and Asian utilities. The first year of gold sales totalled $8.2 million. Cash provided by operations reached $94.4 million during 1987, which almost

equalled last year's $95.7 million. A dividend of $30 million was declared, representing the sixth consecutive year that SMDC has paid dividends to CIC.

After capital expenditures and dividend payments, net debt obligations of the Corporation were reduced by $67 million in the year. Debt reduction for the last three years has exceeded $148 million.

The Key Lake mine located in northern Saskatchewan, in which SMDC holds a 50 per cent interest, produced over 13.5 million pounds of uranium oxide (U_3O_8), or about 112.5 per cent of its annual rated capacity of 12 million pounds. The Cluff Lake mine also located in northern Saskatchewan completed its seventh year of successful commercial operation producing 2.15 million pounds of U_3O_8 in 1987. SMDC holds a 20 per cent interest in the Cluff Lake mine.

The Cigar Lake Mining Corporation received environmental approval to proceed with a test mine at the Cigar Lake uranium deposit. The test mine is scheduled for development over the next 2 1/2 years in order to assess mining methods. Upon completion of the test mining, a production decision will be made subject to market conditions. During 1987, SMDC signed a major agreement with Korea Electric Power Corporation covering the sale of a 2 per cent non-voting equity interest in the Cigar Lake uranium project and a long-term uranium sales contract for SMDC uranium. SMDC now owns 48.75 per cent of the Cigar Lake project but retains a 50.75 per cent voting interest. Cigar Lake is the world's richest uranium deposit with estimated ore reserves of 385 million pounds of U_3O_8 with grades averaging about 12 per cent.

The Star Lake gold mine and mill in Northern Saskatchewan, in which SMDC has a 50 per cent interest, began commercial production in 1987 and by the end of the year had poured over 33,000 ounces of gold bullion. Ongoing exploration in the Star Lake area resulted in a new gold discovery on the Fork Lakes property, about 5 miles southeast of the Star Lake mill. The 1988 drilling program is expected to delineate reserves and grade of this potential orebody.

Work which continued during 1987 in the Amisk Lake area, southwest of Flin Flon, has justified an underground exploration project at the Laurel Lake gold deposit. Reserves are estimated at 282,000 tons with an average grade of 0.44 ounces of gold and 2.2 ounces of silver per ton.

In 1987, SMDC continued with a more diversified exploration program that emphasized grassroots gold exploration, and, to a lesser extent, participation in other precious and base metals programs. In contrast, the uranium exploration program centres on well-developed properties where work is concentrated on delineating potential orebodies or establishing reserve levels.

Subsequent to December 31, 1987, the Government of Canada and the Province of Saskatchewan signed a Letter of Intent to merge the assets of their respective uranium mining companies, Eldorado Nuclear Limited and SMDC. Further details of this transaction can be found in note 15 to the consolidated financial statements.

Saskatchewan Forest Products Corporation (SFPC)

SFPC produces a variety of lumber products. Its production facilities include a sawmill at Carrot River, a plywood plant at Hudson Bay and a wood treatment plant at Prince Albert. The Corporation's head office is located in Prince Albert.

In 1987, net income was $606 thousand compared to $1.12 million in 1986. Production of sawn lumber and treated wood decreased from 1986 levels while production of plywood increased slightly.

SFPC's subsidiary, Northern Forest Operations Ltd. was phased out in 1987. Sales of the La Ronge Sawmill, the Meadow Lake Planer Mill and the Green Lake Sawmill were completed in 1987, leaving the inactive Weyakwin Log Home Manufacturing Plant as the only remaining asset of Northern Forest Operations Ltd.

Several reforestation projects were completed in the Carrot River and Prince Albert areas in co-operation with the Canadian Forestry Service. Plans are in place to continue these projects in 1988.

Saskatchewan Minerals

Saskatchewan Minerals has two operating divisions, one for sodium sulphate production and one for peat moss production. Sodium sulphate is sold primarily for use as a filler for detergent and pulp production. Peat moss is sold for gardening and other horticultural uses.

In 1987, net income was $609 thousand compared to $946 thousand in 1986. A drop in sales revenues of

11.8 per cent from 1986 levels was partially offset by cost controls through staff reductions and restructuring of operations.

Peat moss operations at Carrot River were good in 1987 with sales volumes resulting in a 12.6 per cent increase over 1986 sales.

The Sodium Sulphate Division continued production at its Chaplin and Ingebrigt plants. However, excess supplies of natural sodium sulphate continued to adversely affect the industry. Consequently, the sales volume of sodium sulphate decreased 8.2 per cent from 1986 levels.

In March 1988, the Corporation sold substantially all of its operating assets in two separate transactions. The sodium sulphate operation was sold to Kam-Kotia Mines Ltd., including the Corporation's head office in Chaplin. The peat moss operation was purchased by Premier CDN Enterprises Ltd. The Carrot River peat moss operations will be carried on under the name Premier Sask Inc.

UTILITY CORPORATIONS

The four utility corporations - Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Computer Utility Corporation and Saskatchewan Water Corporation - have a mandate to provide goods and services to the people of Saskatchewan at reasonable rates. Saskatchewan Power Corporation was established to provide electricity and natural gas to the residents of Saskatchewan. Saskatchewan Telecommunications is responsible for the provision of local, long distance and related data and image telecommunication services within Saskatchewan as well as similar services on a national and international level through the Corporation's membership in Telecom Canada. Saskatchewan Computer Utility Corporation has historically provided shared computer processing to its customers although it has recently implemented a new corporate strategy to respond to the rapidly changing conditions in its industry. Saskatchewan Water Corporation is primarily responsible for the management of Saskatchewan's water resources.

Saskatchewan Power Corporation (SPC)

SPC achieved a significant financial improvement in 1987 as a result of a turnaround in the electrical utility. Cost reductions accompanied by electrical rate increases were mainly responsible for a consolidated net income of $36 million compared to a net loss of $10 million recorded in 1986.

Consolidated revenue of $859 million was about the same as 1986. Higher electrical revenues were offset by lower gas revenues due to the unusually warm weather.

Both operating and capital expenditures were reduced from 1986. Operating, maintenance and administration expenses of $218 million were 4.4 per cent lower than 1986 mainly due to the downsizing program and continued control of discretionary spending. Reductions of capital expenditures from $273 million to $185 million reflect the Corporation's efforts to defer capital spending and the completion of the Nipawin Hydroelectric Station in 1986.

Lower debt redemption and significantly higher earnings in 1987 enabled SPC to pay for all its debt servicing requirements with internal funds. As a result, external financing was held to $204 million compared to $317 million in 1986. Reduced borrowings, lower interest rates, and a stronger Canadian dollar held the finance charges to about the same level as 1986.

SPC continued to support local businesses through its Saskatchewan Supplier Development Program. In 1987, the Corporation purchased $169 million worth of goods and services (not including coal and natural gas) from Saskatchewan producers. This equals 84 per cent of its total purchases.

The electrical utility achieved a dramatic turnaround in 1987 and earned its first profit in eight years. The three-year recovery program implemented in 1986 and continuing cost control resulted in a net income of $20 million, compared to a net loss of $19 million in 1986.

Construction began on the 355 kilometer Athabasca Line from near Uranium City to Rabbit Lake, SPC's longest electric transmission line. In the third year of the Rural Underground Distribution program, underground electrical service was installed for more than 1,200 rural customers.

The natural gas utility net income also improved from $9 million to $16 million in 1987. Natural gas deregulation brought changes and benefits both to SPC and its customers. Cost savings from the resulting lower commodity prices were passed on to customers in the form of rate reductions averaging 5.4 per cent.

Saskatchewan Telecommunications (SaskTel)

SaskTel's strong financial performance in 1987 resulted in record net earnings of $50.5 million. This was due to cost reduction measures combined with the continued streamlining of operations and increased revenues.

Careful management of the Corporation's resources has allowed SaskTel to improve the quality of customer services and to generate new business growth while keeping expenditures down.

Two of the largest projects ever undertaken by SaskTel were well under way in 1987. These were the $264 million Rural Individual Line Service program and the $128 million Digital Switching Modernization program. A further program to upgrade switching equipment located in urban centres was announced late in 1987. When completed in the mid 1990's, involving an investment of $133 million, the Corporation will be well on its way to having an all digital telecommunications system.

SaskTel rates were increased an average of five per cent, effective December 15, 1987. Despite this increase, the Corporation's rates for basic service are the second lowest in Canada.

The emergence of a new well-defined strategy for business, the benefit of a skilled workforce, and the use of modern technologies to increase productivity, have made it possible for SaskTel to respond more quickly and efficiently to traditional as well as new customer demands.

At the end of 1987, SaskTel had 747,198 telephones in service, an increase of 8,489 over the previous year. Customers placed 117 million long distance calls during the year, compared to 111 million in 1986.

Saskatchewan Computer Utility Corporation (SaskCOMP)

SaskCOMP provides computer related services, primarily to government departments and Crown corporations within Saskatchewan. Revenue from these customers makes up approximately 97 per cent of SaskCOMP's total revenue.

Over the past five years SaskCOMP has experienced an average growth rate of 13 per cent per year, making it one of the largest computer service bureaus in Western Canada and the seventh largest in Canada.

In 1987 SaskCOMP's corporate revenues reached an all time high of $32 million. Net earnings also increased, from $1.9 million in 1986 to $3.4 million in 1987. This increase was due in large part to a concerted effort by SaskCOMP's management and staff to improve the productivity of their operations and to provide effective and efficient computer service to their customers.

Technological innovation is one of the keys to improving the productivity of a company and its products and services. With this in mind, one of SaskCOMP's most significant activities of 1987 was a second quarter reorganization which resulted in a major commitment of corporate human resources to development activities.

Another highlight of 1987 was SaskCOMP's development of the Dedicated Services offering. The first reward from this effort was a three year dedicated services agreement with one of the Corporation's largest customers, Saskatchewan Government Insurance. Dedicated Services provide facilities management functions to customers who require special levels of control and flexibility in their information processing environment.

A series of agreements were signed on February 23 and 24, 1988 whereby the Corporation agreed to sell all of its operating assets to Westbridge Computer Corporation. Further details of this sale can be found in note 15 to the consolidated financial statements.

Saskatchewan Water Corporation (Sask Water)

Sask Water was established on July 1, 1984 under the authority of **The Water Corporation Act**. The Corporation was created to consolidate the water related activities previously administered by various government departments and the Saskatchewan Water Supply Board. With the broad powers and responsibility to manage, administer, develop, control and protect the use of all water and related land resources in the Province of Saskatchewan, Sask Water administers a variety of water-related development programs, provides water management services in the Province, and operates a regional water supply utility.

In 1987, Sask Water earned $1.3 million on revenues of $28 million, including a $16.3 million grant from the

Province of Saskatchewan to fund various water management programs.

FINANCIAL AND SERVICE CORPORATIONS

The financial and service group is comprised of five corporations - Saskatchewan Government Insurance, Saskatchewan Economic Development Corporation, Saskatchewan Transportation Company, Agricultural Development Corporation of Saskatchewan and Saskatchewan Development Fund Corporation. These corporations operate in a variety of industries and provide services including general and automotive insurance, industrial and commercial lending to new and existing businesses, public transportation and the export of Saskatchewan agricultural and industrial products and technology on a national and international level.

Saskatchewan Government Insurance (SGI)

SGI is a competitive property and casualty insurer offering a comprehensive line of insurance products and services to homes, farms and businesses throughout the province. SGI also offers optional extended automobile insurance protection and coverage beyond the basic compulsory package provided under the Saskatchewan Auto Fund. All of these insurance products and services are offered to the people of Saskatchewan through SGI's sales force of 423 independent agents and brokers.

1987 was a profitable year for SGI's property and casualty operations, with net income of $11.5 million recorded, compared to a net income of $4.8 million (restated) in 1986. The dramatic improvement is due primarily to positive claims experience on all product lines. Saskatchewan's competitive insurance market showed signs of tightening towards the end of 1987, reflecting an overall industry trend towards increased price competition on most lines of insurance.

SGI also administers the Saskatchewan Auto Fund (SAF) on behalf of the Province of Saskatchewan. The SAF provides compulsory automobile insurance protection and coverage for all vehicles registered in the Province.

Saskatchewan Economic Development Corporation (SEDCO)

SEDCO's major objective is to promote and facilitate economic development and diversification for viable Saskatchewan companies, by providing a wide range of financial and property services. These include short and long term loans, property leases and sales of commercial and industrial properties. In 1987, the Corporation assisted in the creation of approximately 650 new jobs with an estimated wage value of $12.7 million. Activities initiated in prior years continue to produce benefits, maintaining an additional 1,600 jobs, $30 million in wages and $1.8 million in provincial tax revenues in 1987.

SEDCO incurred a loss of $7.6 million for the year compared to a $9.9 million loss in 1986. The reduction in the Corporation's loss this year can be attributed to efforts in recent years to reduce the level of non-productive assets.

Saskatchewan Development Fund Corporation (SDFC)

SDFC was established in 1974 under **The Saskatchewan Development Fund Act** to perform the duties of trustee, custodian and manager for the Saskatchewan Development Fund, an open-end investment trust. SDFC initially managed the affairs of the Saskatchewan Development Fund and in turn received management fees and sales charges for its services from the Fund. In 1976, SDFC expanded its operations to include an annuity business which offered several different types of annuities to the public.

SDFC continues to manage the affairs of the Saskatchewan Development Fund although it no longer offers annuities to the public. In 1985, the Corporation moved its operations to the offices of CIC and is now administered by SDFC's Board of Directors through the use of staff and facilities provided by CIC.

SDFC reported net income in 1987 of $333 thousand compared to net income in 1986 of $387 thousand. Total assets in 1987 were $22.2 million compared to $24.4 million in 1986.

Saskatchewan Transportation Company (STC)

STC's intercity bus service operates over 5 million route miles annually, servicing approximately 400 communities and 80 per cent of the Province's population. In many parts of the Province, particularly the rural areas, STC's passenger and parcel express service constitute the only regularly scheduled transportation service. In 1987, STC served over 650 thousand passengers.

Aggressive competition in the parcel express market and declining ridership were the predominant factors in an $800 thousand decline in total revenues compared to the previous year. These declines in revenue combined with escalating operating and interest costs resulted in a $4.3 million loss for 1987 compared to the $2.8 million loss incurred in 1986.

Agricultural Development Corporation of Saskatchewan (Agdevco)

Agdevco has two major responsibilities: expansion of markets for Saskatchewan's agricultural and industrial products through its trade division and stimulating utilization of Saskatchewan's agricultural equipment and technology through its international projects division. Through these activities, Agdevco develops and expands international markets for Saskatchewan's products and services.

In 1987, Agdevco concentrated its corporate resources in two areas. The first priority was to continue expanding and strengthening the international projects division. During the year a joint venture was formed with a private company, Crescent Group Services. This joint venture signed a four year contract with the Pakistan Water, Power and Development Corporation. As well, ongoing projects continued in Africa and China. Through these projects Agdevco continued to strengthen its reputation as an agricultural project leader in developing nations.

Agdevco's second priority was the continuation of market development activities for countertrade. Agdevco is working on numerous deals with several Eastern bloc, African and Asian companies. As a result, this division is expected to see substantial growth in 1988.

During 1987, Agdevco had a loss of $890 thousand. Much of this can be attributed to investment in market development for future countertrade as well as to a decline in livestock sales.

MAJOR SUBSIDIARIES

1) **CIC Industrial Interests Inc. (CIC III)**

A number of private sector companies and other investments are held by CIC III, a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan. At year-end, CIC III held 100 per cent voting interests in Prairie Malt Limited, Cablecom Corporation, 148606 Canada Incorporated, Secore Computers Inc. (formerly 579051 Saskatchewan Ltd.), 582188 Saskatchewan Ltd. as well as a 16 per cent interest in IPSCO Inc., and 100 per cent interests in the outstanding preferred shares of Prairie Malt Limited and SED Systems Inc. CIC III also holds two mortgages on the Cornwall Centre properties in Regina.

2) **Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.)**

On September 9, 1986, Prince Albert Pulp Company Ltd. (PAPCO) sold most of its assets to Weyerhaeuser Canada Ltd. (Weyco) and two of Weyco's wholly-owned subsidiaries. The sale was comprised of two major agreements.

An Acquisition Agreement was signed in which PAPCO sold the majority of its assets including its pulp mill at Prince Albert and its chemical plant located in Saskatoon to Weyco. The Acquisition Agreement also contained the sale of certain assets of Saskatchewan Forest Products Corporation to Weyco. Payment for the assets purchased will be made under the terms of an Income Debenture which has attached to it a nominal interest rate of 8 1/2 per cent, with a maximum term of 30 years. The amount and timing of payments of principal and interest on the Income Debenture will be based initially on the income earned by the pulpmill operations (pulpmill, chemical plant and sawmill). Once the fine paper mill is completed, the payments of principal and interest will be based on income earned by the integrated operations (pulp mill, chemical plant, sawmill and paper mill).

With pulp prices at high levels, the return on investment on the Income Debenture has been over 20 per cent since the sale to Weyco. In 1987, this

resulted in recorded income of $63 million. The Income Debenture is now administered by the staff of Crown Investments Corporation of Saskatchewan.

The second major aspect of this sale was the Development Agreement which details the agreement reached between the Province of Saskatchewan and Weyco with respect to the construction of a new fine paper mill adjacent to the existing pulp mill in Prince Albert, which is presently under construction. The sawmill and planer mill at Meadow Lake as well as the Green Lake sawmill are the only remaining operating divisions.

MAJOR INVESTMENTS

1) **NewGrade Energy Inc.**

NewGrade Energy Inc. (NewGrade) was established to construct, own and operate a heavy oil upgrader in Regina. NewGrade's outstanding voting shares are owned 50 per cent by the Province of Saskatchewan through Crown Investments Corporation of Saskatchewan and 50 percent by Consumers' Co-operative Refineries Limited (CCRL). When construction is complete and operations begin, NewGrade will process 50,000 barrels per day of Saskatchewan's vast resources of heavy crude oil to provide upgraded crude oil ("Reconstituted Crude") to CCRL as a feedstock to their refinery for processing into refined products. The Reconstituted Crude will meet CCRL's feedstock requirements to produce refined products, including propane, butane, gasoline, diesel fuel and furnace oil as well as anode-grade quality coke as a byproduct. In addition to the permanent employment of 125 people at the upgrader, Newgrade will promote the development of Saskatchewan's oil and gas fields resulting in additional employment for up to 1,000 persons in the related exploration, production and service industries.

The plant is one of the largest construction programs currently underway in Canada. At December 31, 1987, the project had reached an overall progress of 65 percent of completion and employed approximately 1,800 engineers, technicians and tradesmen as well as millions of dollars in heavy construction equipment. In addition, the project has resulted in contracts for materials, fabrication and services to approximately 250 local Saskatchewan firms. Construction is currently scheduled to be completed within budget in the fourth quarter of 1988.

2) **Saskatchewan Oil and Gas Corporation (Saskoil)**

Prior to December 1985, Saskoil was a provincial Crown corporation operating under **The Saskatchewan Oil and Gas Corporation Act**. In December 1985, Saskoil was continued under **The Saskatchewan Business Corporations Act** and became a share capital corporation. At that time all of its shares were owned by CIC.

On January 14, 1986, Saskoil sold to the public 3,793,104 common shares at $9.00 per share and 7,586,208 7.25 per cent Cumulative Redeemable Voting Convertible Second Preferred Series A shares at $10.00 per share. The proceeds of this share issue amounted to $110 million from which a dividend of $75 million was paid to CIC. In July 1987, Saskoil issued another 6,557,377 common shares in a public offering.

As a result of these share offerings, CIC's voting interest in Saskoil has been reduced to 47 per cent.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Consolidated Financial Statements 1987

Responsibility for Financial Statements

The management of Crown Investments Corporation of Saskatchewan is responsible for the integrity of the accompanying consolidated financial statements and all other information in this annual report. It is the responsibility of management to prepare financial statements in accordance with generally accepted accounting principles in Canada, applied on a basis consistent with the previous year.

The integrity of the financial records, from which these financial statements are prepared, is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are appropriately recorded in order to permit preparation of financial statements and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The consolidated financial statements have been audited by the independent firm of Clarkson Gordon, Chartered Accountants. Their report, to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the consolidated financial statements appears on the next page.

G. Mazch

Greg Mrazek, Director
Accounting Services

Contents

Auditors' Report 15

Consolidated Statement of Financial Position 16

Consolidated Statement of Operations and Reinvested Earnings 18

Consolidated Statement of Cash Flows 19

Notes to Consolidated Financial Statements 20

AUDITORS' REPORT

To the Members of the Legislative Assembly
of Saskatchewan

We have examined the consolidated statement of financial position of Crown Investments Corporation of Saskatchewan as at December 31, 1987 and the consolidated statements of operations and reinvested earnings and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The comparative figures are based on financial statements examined by the Provincial Auditor of Saskatchewan who expressed his opinion that the consolidated financial statements for the year ended December 31, 1986 did not present fairly the financial position, results of operations and changes in financial position of the corporation in accordance with generally accepted accounting principles because, in his opinion, the consolidated financial statements included the financial results of corporations that were not subsidiaries and the financial results of a subsidiary not controlled by Crown Investments Corporation of Saskatchewan.

Clarkson Gordon

Regina, Saskatchewan,
March 25, 1988.

Chartered Accountants

Crown Investments Corporation of Saskatchewan
Consolidated Statement of Financial Position
As at December 31

	Note Reference	1987	1986
			(thousands of dollars)
Assets			
Current			
Short-term investments		**$ 240,832**	$ 239,563
Accounts receivable		**384,225**	315,525
Inventories		**83,391**	77,793
Prepaid expenses		**124,742**	126,348
		833,190	759,229
Long-term investments	3	**929,407**	704,763
Property, plant and equipment	4	**5,437,099**	5,559,805
Deferred charges	5	**189,305**	275,880
		$ 7,389,001	$ 7,299,677

(See accompanying notes)

	Note Reference	1987	1986
			(thousands of dollars)
Liabilities and Province's Equity			(Note 16)
Current			
Bank indebtedness		**$ 104,529**	$ 81,779
Accounts payable and accrued liabilities		**497,177**	491,567
Notes payable	6	**743,470**	220,657
Deferred revenue		**92,339**	78,800
Long-term debt due within one year	7	**396,113**	469,583
		1,833,628	1,342,386
Deferred revenue		**164,149**	131,442
Long-term debt	7	**4,100,477**	4,537,083
Minority interest in subsidiary	3 & 16	**-**	111,530
Province of Saskatchewan's Equity			
Equity advances	8	**747,230**	747,230
Reinvested earnings		**398,582**	294,548
Contributed surplus		**144,935**	135,458
		1,290,747	1,177,236
		$ 7,389,001	$ 7,299,677
Commitments and contingencies	9		

Crown Investments Corporation of Saskatchewan
Consolidated Statement of Operations and Reinvested Earnings
For the Year Ended December 31

	Note Reference	1987	1986
		(thousands of dollars)	
Revenue			(Note 16)
Sales of products and services		**$ 1,907,840**	$ 1,979,941
Investment income	3	**130,987**	62,017
Other	13	**75,645**	73,597
		2,114,472	2,115,555
Expenses			
Operating costs other than those listed below		**1,121,284**	1,326,269
Interest	10	**520,652**	527,880
Depreciation and depletion		**287,575**	305,984
Saskatchewan taxes and resource payments	11	**80,927**	94,098
		2,010,438	2,254,231
Income (loss) before minority interest		**104,034**	(138,676)
Minority interest share of loss		**-**	1,462
Net income (loss)		**104,034**	(137,214)
Reinvested earnings, beginning of year as previously stated		**303,548**	431,762
Adjustment of prior year's amount	16	**(9,000)**	-
As restated		**294,548**	431,762
Reinvested earnings, end of year		**$ 398,582**	$ 294,548

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Consolidated Statement of Cash Flows
For the Year Ended December 31

	1987	1986
	(thousands of dollars)	
		(Note 16)
Cash Provided by (Used In) Operating Activities		
Income (loss) before minority interest	**$ 104,034**	$ (138,676)
Add (deduct) non-cash items		
Depreciation and depletion	**287,386**	305,664
Sinking fund earnings	**(47,675)**	(50,251)
Other	**23,029**	14,903
	366,774	131,640
Net change to non-cash working capital balances related to operations	**(98,371)**	(50,390)
Cash provided by operating activities	**268,403**	81,250
Cash Provided by (Used In) Investment Activities		
Fixed assets - purchases	**(442,943)**	(565,876)
- proceeds on sale	**27,445**	218,420
Investments - purchases	**(186,093)**	(392,549)
- sales and collections	**108,147**	181,219
Cash used in investment activities	**(493,444)**	(558,786)
Cash Provided by (Used In) Financing Activities		
Increase (decrease) in notes payable	**522,813**	(131,263)
Long-term debt proceeds		
Province of Saskatchewan	**153,227**	774,485
Other lenders	**124,684**	130,836
Long-term debt repayments		
Province of Saskatchewan	**(479,937)**	(351,682)
Other lenders	**(125,208)**	(40,396)
Increase in deferred charges	**(24,844)**	(35,685)
Increase in deferred revenue	**22,079**	61,056
Increase in contributed surplus	**9,477**	17,080
Dividend to Province of Saskatchewan	**-**	(25,000)
Subsidiary share issue	**-**	107,079
Cash provided by financing activities	**202,291**	506,510
Net Increase (Decrease) in Cash During Year	**(22,750)**	28,974
Cash Position, Beginning of Year	**(81,779)**	(110,753)
Cash Position, End of Year	**$ (104,529)**	$ (81,779)

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Notes to Consolidated Financial Statements
December 31, 1987

1. Summary of significant accounting policies

The preparation of periodic financial statements involves the use of estimates and approximations because a more precise determination of financial data frequently depends upon future events. These consolidated financial statements have been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Consolidation principles and basis of presentation

Certain Saskatchewan provincial Crown corporations are subject to Part II of **The Crown Corporations Act, 1978** (the Act). The Act assigns specific financial and other responsibilities regarding these corporations to Crown Investments Corporation of Saskatchewan (CIC), which is responsible for the Province's investments in designated commercial Crown corporations. On direction from CIC these Crown corporations pay dividends to CIC. Because of the significance of these Crown corporations and their relationship to CIC, the presentation of consolidated financial statements which include the accounts of these Crown corporations is considered the appropriate basis of presentation of the financial position and operations of CIC. Separate financial statements for each of the undernoted Crown corporations are prepared and submitted annually to the Legislative Assembly.

The following corporations, which do not have share capital, have been designated as subject to Part II of the Act by Order-in-Council 630/84 (amended by 874/84) and their accounts have been consolidated in these financial statements.

Agricultural Development Corporation of Saskatchewan and consolidated subsidiary
Potash Corporation of Saskatchewan and consolidated subsidiaries
Saskatchewan Computer Utility Corporation
Saskatchewan Development Fund Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Forest Products Corporation and consolidated subsidiary
Saskatchewan Government Insurance
Saskatchewan Minerals
Saskatchewan Mining Development Corporation and consolidated subsidiary
Saskatchewan Power Corporation and consolidated subsidiaries
Saskatchewan Telecommunications and consolidated subsidiary
Saskatchewan Transportation Company
Saskatchewan Water Corporation.

In addition to the Crown corporations listed above, Meadow Lake Sawmill Ltd. and CIC Industrial Interests Inc. are wholly-owned share capital companies of CIC and their accounts are also consolidated in these financial statements.

b) Joint ventures

Certain activities are conducted by joint ventures. Joint venture interests are accounted for by the proportionate consolidation method.

c) Inventories

Inventories for resale at various stages of manufacture are generally valued at the lower of average production cost and net realizable value. Other inventory supplies are valued at the lower of cost and replacement cost.

d) Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Long-term investments include shares held in private and public companies plus marketable securities. Shares are recorded at cost. Marketable securities are recorded at cost, adjusted for the unamortized balance of related premiums and discounts incurred on purchase. Where there has been a decline in the value of an investment that is not considered temporary, the investment is written down to net realizable value.

Investments in shares of companies in which the corporation exercises significant influence are recorded on the equity method of accounting.

e) Property, plant and equipment

Property, plant and equipment are recorded at cost and includes materials, services, direct labour and overhead costs which are readily identifiable with the construction activity or asset acquisition. The cost of funds used to finance the construction of major projects is also included.

The costs of maintenance, repairs and renewals or replacements are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When property, plant or equipment are disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations. This general policy applies only to complete asset units in the Saskatchewan Power Corporation. Saskatchewan Telecommunications includes gains or losses in accumulated depreciation.

The full cost method of accounting is followed for gas properties and related expenditures and accordingly all costs related to exploration and development of gas reserves are capitalized.

All acquisition of mineral properties, and related exploration and development costs, are deferred and carried at cost, to be amortized by charges against future mining operations. When it is determined that a project area does not contain economically recoverable ore reserves the related deferred costs are written off against earnings.

f) Depreciation and depletion

Depreciation is recorded on buildings and improvements as well as machinery and equipment costs primarily on the straight-line basis over the estimated productive life of each asset.

Depletion is recorded on deferred property, exploration and development costs, gas production and gathering systems and mining assets according to the unit-of-production method based on estimated proven economically recoverable reserves.

g) Deferred charges

Deferred charges include financing charges, pre-operating costs and unamortized differences arising from translation of long-term debt in foreign currencies to Canadian dollars.

Unamortized financing charges applicable to the issue of long-term debt are amortized on a straight line basis over the respective term of each obligation.

Pre-operating costs are amortized over a period not exceeding 10 years.

h) Contributed surplus

Contributed surplus consists of funds received from customers relating to new service connections where it is estimated that revenues will never exceed the cost of providing service.

i) Foreign exchange translation

Monetary items are translated at the rate of exchange in effect at the year end. Revenue and expenses are translated at rates in effect as they occur. Non-monetary items are translated at the exchange rate prevailing at the time of the transaction.

Long-term debt and related accrued interest, payable in foreign currencies, are recorded at exchange rates prevailing at the year end date. Where the translation of long-term debt results in a difference from the previously recorded amount (i.e. translation gains and losses), the difference is deferred and amortized on a straight-line basis over the remaining term of the debt.

j) Leases

As lessee, where the corporation has substantially all of the benefits and risks incident to the ownership of property, plant and equipment, the lease is classified as a capital lease. Property, plant and equipment recorded as capital leases are amortized on a basis similar to other assets in the same depreciation category. All other leases are

1. Summary of significant accounting policies (continued)

classified as operating leases and lease payments are expensed as incurred.

As lessor, where the corporation transfers substantially all of the benefits and risks incident to the ownership of the property, plant and equipment to the lessee, the lease is classified as a sales-type lease or direct financing lease. All other leases are classified as operating leases and lease payments are recorded as income.

2. Status of Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan, then named The Government Finance Office, was established by Order-in-Council 535 dated April 1, 1947, and continues under the provisions of **The Crown Corporations Act, 1978,** as Crown Investments Corporation of Saskatchewan. The corporation is an agent of Her Majesty in Right of the Province of Saskatchewan.

3. Long-term investments

	1987	1986
	(thousands of dollars)	
Income debenture	**$ 236,581**	$ 236,581
Loans and notes receivable	**216,105**	247,497
Bonds and debentures	**116,037**	76,938
Shares		
- equity method	**227,142**	30,667
- cost method	**49,585**	47,862
Property holdings	**58,651**	47,631
Leases receivable	**25,306**	17,587
	$ 929,407	$ 704,763

a) In 1986 CIC had a 58 per cent voting interest in Saskatchewan Oil and Gas Corporation (Saskoil) and the accounts of Saskoil were consolidated in CIC's 1986 financial statements. In 1987, Saskoil completed a public share offering which reduced CIC's voting interest to 47 per cent. Accordingly Saskoil has been accounted for by the equity method in 1987.

b) CIC has agreed to provide equity funding to NewGrade Energy Inc. (NewGrade), to a maximum of $158 million, for the purpose of assisting NewGrade in the construction of a heavy oil upgrader. To December 31, 1987, CIC had made a total equity investment in NewGrade of $61.8 million. On February 15, 1988 CIC provided further equity funding of $15.9 million to NewGrade. CIC has pledged all of the securities purchased from NewGrade as collateral security for NewGrade's loans.

c) Bonds and debentures had an estimated market value of $115 million (1986 - $83 million).

d) On September 9, 1986 certain operating assets were sold in exchange for an income debenture with a principal amount of $236.6 million. The terms of the debenture are separated into two distinct periods. The first period began September 9, 1986 and continues until the earlier of December 31, 1989 and the commencement of commercial operations of a new paper mill now being constructed by the purchaser which is currently anticipated to be completed by August 31, 1988. The second period then begins and it expires upon the earlier of the debenture being extinguished and its maturity in the year 2015.

Debenture interest is determined by formula in both periods. The formula in the first period effectively results in the majority of earnings of the assets sold accruing to the benefit of the debenture holder. Interest earned is to be received based on a cash availability formula. Interest not paid due to a shortfall of available cash is carried forward to future periods to be paid as cash becomes available under the cash availability formula. Income earned during this first period is being recognized in earnings to the extent that cash is reasonably determined to be available prior to the commencement of the second period. Interest of $63.0 million (1986 - $ nil) has been included in investment income, representing all interest earned to December 31, 1987.

Interest during the second period is 8 1/2 per cent, subject to certain minimum earnings being achieved on the combined operations of the paper mill and the assets sold. Earnings shortfalls, if any, will result in

an increased rate of interest in future periods until the shortfall is recovered. A cash availability formula is applied similar to that in the first period except that an allowance is provided for a return on the purchaser's equity investment in the paper mill and for interest and principal on amounts borrowed to construct the paper mill.

Annual principal repayments of $.5 million are required beginning in the second period based upon cash availability. Additional principal repayment may be made at the option of the purchaser. Upon maturity of the debenture in year 2015, any outstanding unpaid principal or interest may be exchanged for preferred shares issued by the purchaser. These shares are to be redeemed based on a cash availability formula similar to that in the second period and are subject to retraction twenty-five years from date of issue.

A gain of $47 million on the sale of the above noted assets is included in deferred revenue. The method of accounting with respect to the recognition of this gain in income and in respect to debenture interest earned during the second period will be determined following commencement of the second period.

4. Property, plant and equipment

	1987	1986
	(thousands of dollars)	
Machinery & equipment	**$5,338,940**	$5,054,435
Buildings & improvements	**849,773**	626,732
Deferred property, exploration & development costs	**822,507**	1,030,803
Plant under construction	**126,136**	506,469
Land	**116,264**	105,323
Capital leases	**115,189**	115,021
	7,368,809	7,438,783
Accumulated depreciation and depletion	**1,931,710**	1,878,978
	$5,437,099	$5,559,805

5. Deferred charges

	1987	1986
	(thousands of dollars)	
Pre-operating costs	**$ 69,495**	$ 54,156
Deferred foreign exchange translation losses	**66,435**	162,615
Deferred financing charges	**44,062**	53,266
Other deferred charges	**9,313**	5,843
	$ 189,305	$ 275,880

6. Notes payable

Notes payable include $670 million (1986 - $191 million) due to the Province of Saskatchewan's Consolidated Fund and the Saskatchewan Heritage Fund. These notes are primarily interest bearing having an average annual interest rate of 8.79 per cent (1986 - 8.33 per cent).

7. Long-term debt

Years to Maturity	1987 Principal Outstanding U.S. Dollars	1987 Principal Outstanding Canadian Dollars	1987 Average Interest Rate	1986 Principal Outstanding	1986 Average Interest Rate
		(thousands of dollars)			
A. Province of Saskatchewan					
Canadian Dollar Issues					
1 - 5 years		**$ 607,422**	**7.74**	$ 858,445	8.91
6 - 10 years		**299,053**	**8.75**	171,379	7.66
11 - 15 years		**537,166**	**9.95**	368,827	9.86
16 - 20 years		**1,078,132**	**11.04**	1,353,861	11.01
21 - 25 years		**50,000**	**9.00**	50,000	9.00
		2,571,773		2,802,512	
United States Dollar Issues					
1 - 5 years	**$ 1,079,265**	**1,402,290**	**11.37**	1,356,662	10.66
6 - 10 years	**-**	**-**	**-**	271,202	15.31
11 - 15 years	**-**	**-**	**-**	-	-
16 - 20 years	**250,000**	**324,825**	**8.66**	-	-
21 - 25 years	**125,000**	**162,412**	**9.25**	517,688	8.86
	1,454,265	**1,889,527**		2,145,552	
		4,461,300		4,948,064	
Less sinking fund balance		**(431,156)**		(390,881)	
TOTAL DUE TO PROVINCE OF SASKATCHEWAN		**4,030,144**		4,557,183	
B. Other long-term debt					
Saskatchewan Power Corporation Savings Bonds (due 1988 to 1990)		**278,136**	**8.5-9.5**	223,320	8.75-11.50
Capital lease obligations (Note 12)		**108,427**	**Various**	113,664	Various
Other (due 1988 to 2013)		**79,883**	**Various**	112,499	Various
TOTAL OTHER LONG-TERM DEBT		**466,446**		449,483	
		4,496,590		5,006,666	
Less due within one year		**(396,113)**		(469,583)	
TOTAL LONG-TERM DEBT	**$ 1,454,265**	**$ 4,100,477**		$ 4,537,083	

There is a requirement, attached to certain interest-bearing issues from the Province of Saskatchewan, to make annual payments to the Province in amounts representing one per cent to three per cent of the original issue. These annual payments are invested by the Province with the cumulative aggregate being available for the retirement of the issues on their maturity dates and are noted above as sinking fund balance.

Certain issues received from the Province of Saskatchewan in the amount of $759 million (1986 - $678 million) require that the issues be subject to redemption on six months notice.

Included in the United States dollar issues is a loan for 150 million Swiss francs hedged at $77.6 million (United States dollars) maturing on March 1, 1988.

The interest rate on the Saskatchewan Power Corporation Savings Bonds can be increased at the discretion of the Minister of Finance of the Province. The bonds are subject to redemption semi-annually until maturity at the option of the bondholder.

The Corporation participates in several interest rate swap agreements which mature at various dates from January to September, 1988. These agreements have the effect of converting $175 million (United States dollars) of fixed rate debt into floating rate debt which resulted in an effective interest rate reduction on these issues from 16 per cent to 13 1/4 per cent in 1987.

In 1986 Saskatchewan Power Corporation completed a "legal defeasance" of an $89.3 million loan from the Province of Saskatchewan by placing a note receivable into an irrevocable trust to be used solely for satisfying the principal and interest payments on the loan. The Province of Saskatchewan has accepted the promissory note as full and final satisfaction of the loan. Accordingly, neither the loan nor the note receivable are reflected in the accompanying financial statements.

Sinking fund and debt retirement requirements for the next five years are as follows (thousands of dollars):

1988 - $396,113
1989 - $402,307
1990 - $365,543
1991 - $740,466
1992 - $299,079

Long-term debt payable in United States dollars has been translated into Canadian dollars at an average year-end exchange rate of 1.2993 (1986 - 1.3804).

8. Province of Saskatchewan's equity

Equity advances received from the Saskatchewan Heritage Fund are non-interest bearing and are repayable at the discretion of the Province. Subsequent to December 31, 1987 CIC received $77.5 million of equity advances from the Saskatchewan Heritage Fund.

9. Commitments and contingencies

CIC and its consolidated corporations had the following commitments and contingencies as at December 31, 1987:

a) forward purchase commitments of $1,902 million for natural gas and $1,879 million for coal contracted for future minimum deliveries valued at current prices.

b) capital expenditures for approximately $544 million.

c) 49,194 ounces of gold bullion were borrowed during 1986 and 1987 and the gold bullion loan must be repaid in kind to the lender.

d) The Saskatchewan Water Corporation (SWC) has entered into an agency agreement with the Souris Basin Development Authority (SBDA), a provincial Crown corporation, whereby the SBDA will construct works on the Souris River and Moose Mountain Creek on behalf of SWC. SWC will provide SBDA with funds for the construction costs. The estimated cost of the project is $120 million and SWC's share is expected to be $48 million. The nature of such arrangements is subject to the finalization of agreements with other participants in the project.

9. Commitments and Contingencies (continued)

e) In 1983 the Cumberland House Local Community Authority #3 and various local groups and residents commenced legal action against the Saskatchewan Power Corporation (SPC) and the Province of Saskatchewan claiming $200 million as compensation for damages allegedly suffered due to the construction and operation of the Squaw Rapids Hydroelectric Station. A mediator has been appointed and until the mediation process is concluded, there will be no activity on the court action. A reasonable estimate of the amount of the settlement, if any, cannot be made at this time.

f) In 1982 SPC sold a dragline for $45 million. The purchaser of the dragline financed the transaction by issuing promissory notes due May 18, 2003. The notes were endorsed by SPC and SPC's liability as endorser is guaranteed by the Province of Saskatchewan. SPC holds a chattel mortgage on the dragline as security against its contingent liability.

g) In 1984, SPC sold its Poplar River mine, including certain coal reserves, facilities and equipment. As part of the sale, certain leased mining equipment was transferred to the purchaser and the purchaser assumed the lease with SPC contingently liable for the payments. As collateral, the purchaser has assigned a security interest in the mine facilities and other assets to SPC.

h) CIC has unconditionally guaranteed payment of indebtedness incurred by an investee corporation under the terms of a lease. The liability of CIC under the guarantee is limited to $65 million.

i) The corporations are the defendants to several unresolved statements of claim. The corporations have provided in their accounts for these claims in accordance with the advice received from legal counsel. The corporations intend to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

10. Interest expense

	1987	1986
	(thousands of dollars)	
Interest on long-term debt	$ 574,138	$ 591,737
Amortization of deferred financing costs	4,684	7,604
Amortization of foreign exchange losses	834	28,068
	579,656	627,409
Less		
Interest capitalized	52,229	80,930
Sinking fund earnings	47,675	50,251
Gain on debt retirement	259	427
	100,163	131,608
Long-term debt interest expense	479,493	495,801
Short-term debt interest expense	41,159	32,079
	$ 520,652	$ 527,880

11. Saskatchewan taxes and resource payments

	1987	1986
	(thousands of dollars)	
Resource royalties and payments		
Oil, gas and coal royalties	$ 17,305	$ 30,133
Potash royalties and payments	10,599	11,805
Uranium royalties	5,273	5,443
Timber dues	1,649	1,809
Sodium sulphate royalties	543	705
	35,369	49,895
Grants in lieu of taxes to municipalities	26,279	28,096
Capital tax	13,048	12,718
Insurance premium tax	5,347	5,082
Other	2,206	1,649
Total paid or payable	82,249	97,440
Amounts inventoried	(1,289)	(2,908)
Amounts capitalized	(33)	(434)
	$ 80,927	$ 94,098

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments.

12. Leases

a) The Corporation, as lessee, has entered into capital leases whereby substantially all of the benefits and risks of ownership have been transferred to the Corporation from the lessor. Commitment information related to these leases is as follows:

	1987	1986
	(thousands of dollars)	
Future minimum lease payments		
1987	$ -	$ 19,232
1988	18,756	18,596
1989	18,418	18,258
1990	17,721	17,562
1991	17,359	17,230
1992	16,889	16,889
Thereafter	109,005	108,988
Total minimum lease payments	198,148	216,755
Less amount representing interest and executory costs	(89,721)	(103,091)
Balance of obligation	108,427	113,664
Less current portion	(5,905)	(5,783)
	$ 102,522	$ 107,881

b) All other leases entered into by the Corporation, as lessee, were operating leases with future minimum lease payments as follows (thousands of dollars):

1988	$ 19,635
1989	13,355
1990	9,264
1991	6,391
1992	4,356
Thereafter	19,660
	$ 72,661

13. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and non-Part II Crown corporations with which the Corporation is related. Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements.

During 1987 Saskatchewan Water Corporation received $25.5 million (1986 - $24.7 million) in grants from the Consolidated Fund.

14. Pensions

Substantially all employees of the corporations included in these financial statements are participants in either defined contribution or defined benefit pension plans.

In 1987, the Corporation adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants for the accounting for pensions. The effect of this change on net income for the year is not material.

Based on the latest actuarial valuations, extrapolated to December 31, 1987, the present value of the accrued pension benefits of the defined benefit pension plans was $675 million which approximated the estimated market value of the pension funds' assets.

15. Subsequent events

a) On February 22, 1988, CIC, Canada Development Investment Corporation and the Governments of Saskatchewan and Canada signed a Letter of Intent which provides for the sale of substantially all of the assets of Saskatchewan Mining Development Corporation (SMDC) to a new corporation. Simultaneously, substantially all of the assets of Eldorado Nuclear Limited (Eldorado) will also be sold to the new corporation. As consideration for the sale, the Letter of Intent provides that Eldorado and SMDC will receive shares and notes of the new corporation which will give control of the new corporation to SMDC and would give Eldorado minority shareholding in the new corporation. The

15. Subsequent events (continued)

Letter of Intent contemplates that the new corporation notes will be repaid after the completion of the transaction from financing proceeds.

b) On February 23 and 24, 1988 a series of agreements were signed whereby Saskatchewan Telecommunications, Saskatchewan Computer Utility Corporation and a subsidiary of CIC Industrial Interests Inc. sold certain operating assets to Westbridge Computer Corporation (Westbridge). The consideration was $23.2 million in notes payable plus common shares providing the above noted companies with a majority ownership interest in Westbridge.

c) Subsequent to December 31, 1987 Saskatchewan Minerals entered into agreements whereby it sold substantially all of its operating assets and will receive approximately $15.9 million in consideration.

16. Adjustment to 1986 amounts

The 1986 financial statements have been changed to reflect an addition to the previously recorded minority interest. The result of this adjustment to the 1986 accounts is an increase of $9 million in minority interest in subsidiary and a decrease of $9 million in reinvested earnings.

Certain of the other 1986 comparative figures have been reclassified to conform with the current period presentation.

CROWN MANAGEMENT BOARD OF SASKATCHEWAN

Crown Investments Corporation
of Saskatchewan
2400 College Avenue
REGINA, Saskatchewan
S4P 1C8

Inquiry No. (306) 787-6851
Chairman: Mr. Wolfgang Wolff, F.C.A.
President: Mr. William B. Gibson

Resource Corporations

Potash Corporation of Saskatchewan
PCS Tower
Ste. 500
122 - 1st Avenue South
SASKATOON, Saskatchewan
S7K 7G3

Inquiry No. (306) 933-8500
Chairman: Mr. Paul J. Schoenhals
President: Mr. C. E. (Chuck) Childers

Saskatchewan Mining Development
Corporation
Sturdy Stone Centre
122 - 3rd Avenue North
SASKATOON, Saskatchewan
S7K 2H6

Inquiry No. (306) 933-5000
Chairman: Senator E.W. Barootes
President: Mr. Roy E. Lloyd

Saskatchewan Forest Products
Corporation
550 First Avenue East
PRINCE ALBERT, Saskatchewan
S6V 2A5

Inquiry No. (306) 953-3838
Chairman: Mr. Pat Hill
General Manager: Mr. Douglas L. Barclay

Saskatchewan Minerals
P.O. Box 120
CHAPLIN, Saskatchewan
S0H 0V0

Inquiry No. (306) 395-2561
Chairperson: Hon. Patricia A. Smith
President: Mr. Len Mason

Utility Corporations

Saskatchewan Power Corporation
2025 Victoria Avenue
REGINA, Saskatchewan
S4P 0S1

Inquiry No. (306) 566-2121
Chairman: Mr. Donald Stankov
President: Mr. George D. Hill, Q.C.

Saskatchewan Telecommunications
2121 Saskatchewan Drive
REGINA, Saskatchewan
S4P 3Y2

Inquiry No. (306) 347-3737
Chairman: Mr. Garth C. Kennedy
President: Mr. James Coombs

Saskatchewan Computer Utility Corporation
1801 Hamilton Street
REGINA, Saskatchewan
S4P 4J2

Inquiry No. (306) 787-3951
Chairman: Mr. D. Gavin Koyl
President: Mr. Gerald B. Thom

Saskatchewan Water Corporation
Victoria Place
111 Fairford Street East
MOOSE JAW, Saskatchewan
S6H 7X9

Inquiry No. (306) 694-3900
Chairman: Hon. Herb Swan
President: Mr. Vern C. Fowke, F.C.A.

Financial and Service Corporations

Saskatchewan Government Insurance
2260 - 11th Avenue
REGINA, Saskatchewan
S4P 0J9

Inquiry No. (306) 565-1200
Chairman: Mr. Allan W. Wagar
President: Mr. Alex Wilde

Saskatchewan Economic Development Corporation
1106 Winnipeg Street
REGINA, Saskatchewan
S4R 1J6

Inquiry No. (306) 787-7200
Chairman: Mr. Larry A. Kyle, Q.C.
President: Mr. Douglas S. Price

Saskatchewan Development Fund
Corporation
Ste. 300 - 2400 College Avenue
REGINA, Saskatchewan
S4P 1C8

Inquiry No. (306) 787-1645
Chairman: Mr. Murray D. Acton, Q.C.
General Manager: Mr. William B. Gibson

Saskatchewan Transportation Company
2041 Hamilton Street
REGINA, Saskatchewan
S4P 2E2

Inquiry No. (306) 787-3353
Chairman: Hon. Grant Hodgins
President: Mr. Don Castle

Agricultural Development Corporation of Saskatchewan
North Canadian Oils Building
1106 - 2500 Victoria Avenue
REGINA, Saskatchewan
S4P 3V7

Inquiry No. (306) 787-5035
Chairman: Hon. Eric A. Berntson
President: Mr. Bruce Hanson